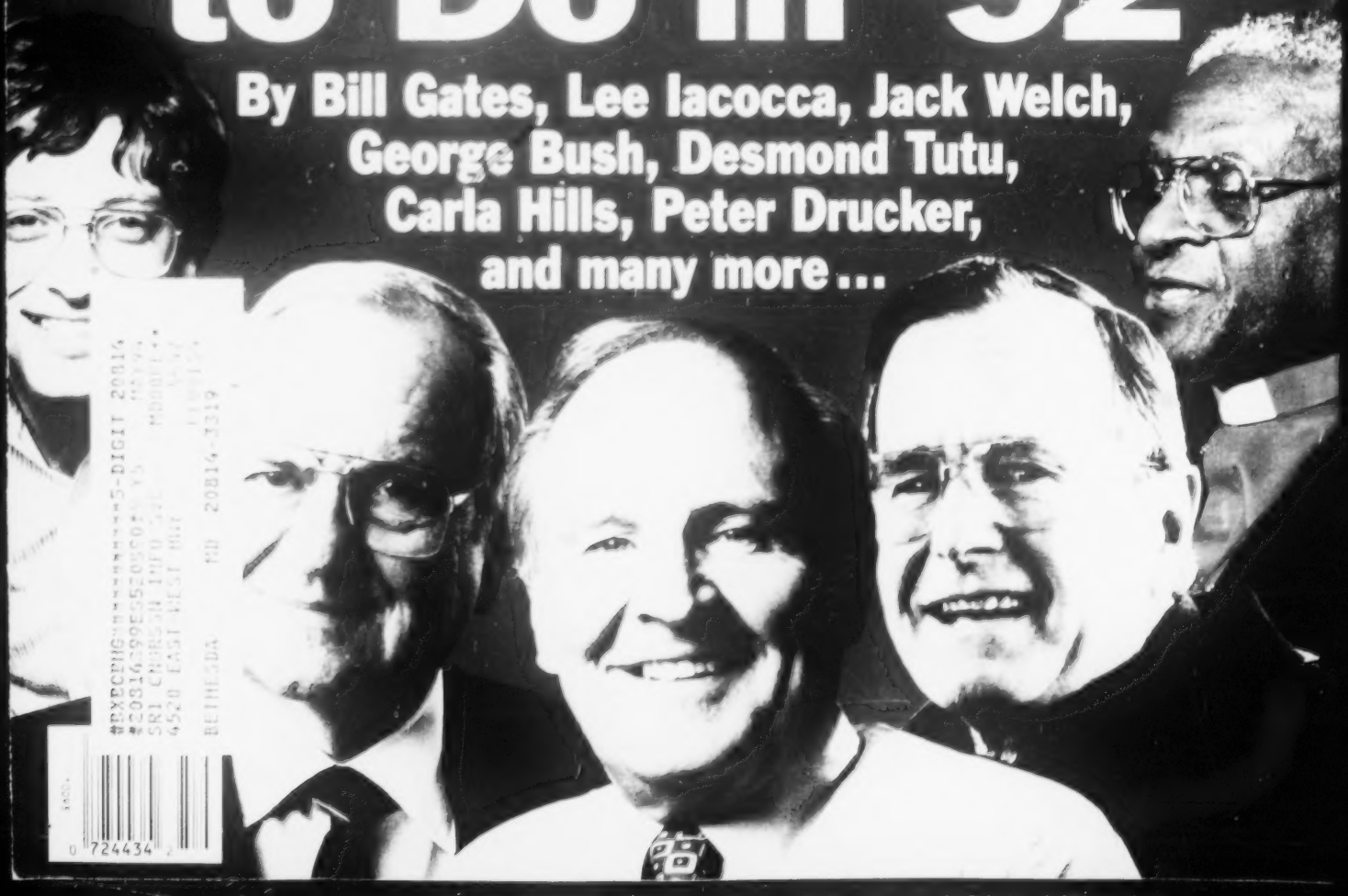
INVESTING FOR HARD TIMES • SHAKEUP AT HONDA • CUOMO'S ECONOMICS

DECEMBER 30, 1991 $3.95

FORTUNE

What I Want U.S. Business to Do in '92

By Bill Gates, Lee Iacocca, Jack Welch, George Bush, Desmond Tutu, Carla Hills, Peter Drucker, and many more...



DECEMBER 30, 1991 VOL. 124, NO. 15

FORTUNE

ABOVE: Four whose ideas we gleaned—Hills (photo by Linda Creighton), Gault (John Abbott), Tanii (Caroline Parsons), and Sculley (Doug Menuez—Reportage).

COVER: Gates (Ed Kashi), Iacocca (Michael O'Neill), Welch (Peter Gregoire), Bush (J.L. Atlan—Sygma), Tutu (Brad Markel—Gamma/Liaison)

"American business has the ability to focus on problems and solve them. Its weakness: thinking there must be almost instant return on investments." PAGE 24

SPECIAL REPORT/COVER STORY

WHAT I WANT U.S. BUSINESS TO DO IN '92 24

With the American economy convalescing and the world order in stunning metamorphosis, the globe's largest business sector senses an urgent need to change. So FORTUNE asked influential leaders in commerce, politics, religion, and academia, as well as workers, consultants, writers, and others, what they want U.S. business to do in the coming year. Their wide-ranging answers will intrigue, enrage, and surprise you—from General Electric CEO Jack Welch's thoughts on provoking ideas to Archbishop Desmond Tutu's call for togetherness and fellowship.

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He has a lot of them. Here's what the New York governor told FORTUNE in Albany about what ails the nation and how to remedy it, from an investment-led recovery to controlling growth in health costs and entitlements. *by Ann Reilly Dowd*

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The Eighties were richly rewarding. The Nineties are proving to be tougher. You can still succeed, but it is going to take some smart moves as the markets in stocks and bonds come back down to Earth. *by Terence P. Paré*

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In an era of diminished expectations, the iconoclastic CEO of the Vanguard mutual fund organization is offering his products at a fraction of the normal charge. Investors are signing on. Competitors are growing nervous. *by Andrew Evan Serwer*

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Its exporters keep pouring out products, while its imports have gone flat. Unless Tokyo brings down the excess, world trade could be hit by a new outbreak of protectionism. *by Lee Smith*

"More is at stake in this election than in any election since the Depression."

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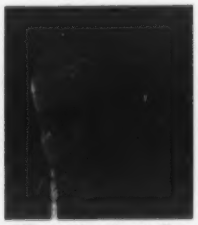

"We are in a brutally competitive environment, but the no-load, low-cost segment of [the mutual fund] business will thrive."

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"Executives should guard against doing on computers what their assistants can do for them."

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"We've exploded the myth that you can't produce competitively in the U.S., and with better quality."

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"We had to tell our people that what we do from now on will not be restrained by anybody else, even Mr. Honda."

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"The question in the mind of the foreign investor: 'Do I really want to play in traffic while Canadians sort out these matters?' "

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TECHNOLOGY

SAVING TIME WITH NEW TECHNOLOGY 98

Armed with laptops, palmtops, and cellular phones, executives on the go run their businesses from wherever they happen to be, and find they are a lot more productive. *by Gene Bylinsky*

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Tired of hearing about corporations that are giving up on the U.S. as a place to make things? Some have returned, and here's why they're glad they did. *by Edmund Faltermayer*

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CEO Kawamoto has abandoned consensus management for American-looking organization charts. Result: Communications and decision-making are getting faster. *by Alex Taylor III*

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Lasers from Sunrise Technologies of California are on the cutting edge in dentistry—and appeal to ophthalmologists and other medical specialists as well. *by Shelley Neumeier*

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Not long ago its growth was second only to Japan's. Now businesses are fleeing to the U.S. and the economy is stuck. One reason: the rising threat of secession by Quebec. *by Louis Kraar*

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While the U.S. recession may well have ended last spring, most Americans see no sign of the beginnings of any real life in the economy. The downbeat mood itself is contributing to the fragility of the nascent expansion. *by Vivian Brownstein*

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What to buy for Christmas: Tell Santa to keep those chip-encrusted entertainment devices in his sack and give you a good book instead. Here's a sampling. *by Gil Schwartz*

KEEPING UP 139

The necessity of obloquy (or bankrupts on the march), nausea in Boston, how to get slugged in New York, and other matters. *by Daniel Seligman*

EDITOR'S DESK

At the FORTUNE 500 Forum: General Electric's Jack Welch with Allied-Signal CEO Lawrence Bossidy

Lyondell CEO Bob Gower, Goodyear CEO Stanley Gault, Peter Drucker, and Prof. Warren Bennis

South Africa's Archbishop Desmond Tutu at the meeting with former Citicorp CEO Walter Wriston

Real estate developer Trammell Crow with Jerome Chazen, Chairman of Liz Claiborne

Defense Secretary Cheney talks about the implications of massive cutbacks in the military.

WE GAVE A PARTY—and *everybody* came. Imagine more than 100 CEOs, chairmen, and presidents of FORTUNE 500 companies listening to the President of the U.S., two governors, four Cabinet-level officers, five worldclass scholars and consultants, a Nobel Peace Prize winner—and many of the business chiefs themselves. That was the scene at the first annual FORTUNE 500 Forum in Charleston, South Carolina, a few weeks ago. It's hard to ascertain whether, as former Budget Director David Stockman remarked, half the market capitalization of the S&P 500 was represented in the meeting room, but the aggregate sales, profits, influence, and—most important—intellectual firepower was staggering.

The greatest value of such a gathering is in the ideas it produces, and by that measure this was a treasure chest. GE's Jack Welch spoke about managing intellectual capital. Defense Secretary Dick Cheney outlined defense in the Nineties, management authority Peter Drucker discussed setting strategy, Archbishop Desmond Tutu talked about morals and leadership in business, Federal Reserve Governor Wayne Angell analyzed the U.S. economy, and National Security Adviser Brent Scowcroft described America's role in the emerging world order. And those are just a handful of highlights.

Many of the resulting ideas appear in this issue's cover package. To prepare it, FORTUNE asked a diverse, worldwide group a seemingly simple question: "What do you want U.S. business to do in 1992?" Why that question now? Says Geoffrey Colvin, who edited the package: "With the U.S. economy fragile and many companies struggling, the competitiveness of the world's largest economic power is at the top of everyone's agenda." Answers varied as widely as respondents, but a few themes were clear: the need for a long-term view, less authoritarian management, and more thorough globalization. Colvin adds, "Another theme that came through over and over is trust. Many people stressed that U.S. business must regain the trust of employees and the public." Count on seeing such ideas—and many others from the Forum's heavyweights—explored in FORTUNE in the months ahead.

Marshall Loeb

MANAGING EDITOR

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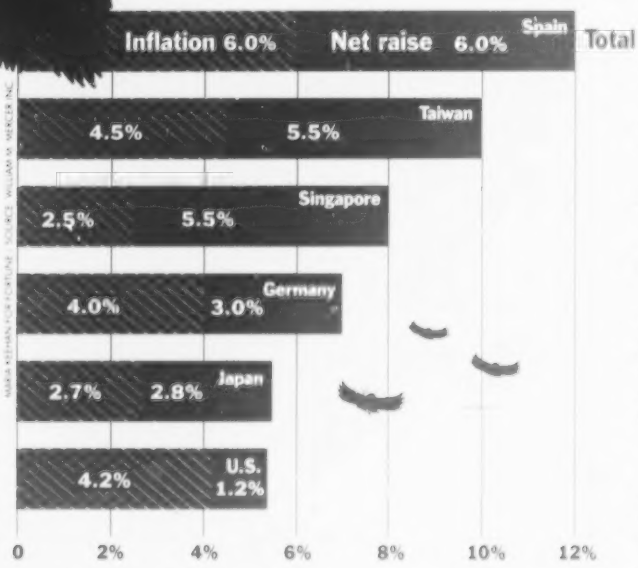
HOW INFLATION WILL DEVOUR RAISES



peak), to shrink next year by more than the 20,000 that the company has declared its goal.

Big cuts are surely going to have to come out of IBM's headquarters staff, though bushwhacking that bureaucracy will be tough. One of the risks of the new plan is that IBM's overall costs—known internally as the "expense machine"—will continue to climb as divisions gear up to do business on their own.

Just how IBM's parts are to divide up the cost of the company's colossally expensive research and development establishment isn't clear. Another uncertainty: whether IBM's marketing structure, in an age of decentralization, will permit the company to provide the broad "solutions" that many corporate customers claim they need. **– Carol J. Loomis**

SALARIES: WHAT TO EXPECT IN 1992

■ U.S. managers will be pinching pennies. William M. Mercer Inc., a New York City executive compensation firm, surveyed 3,200 American companies and found that they will award average salary increases of 5.4% next year. But Mercer's estimated inflation increase of 4.2%—about what FORTUNE forecasts—will leave managers with a paltry 1.2% extra to spend. Companies in countries with stronger economies and a smaller managerial talent pool will reward their employees more handsomely (see chart).

Some Americans will catch up to their foreign counterparts through bonuses and stock options, both of which are more common in the U.S. than abroad. But such forms of variable compensation usually reward those who need them least: CEOs and other top managers. And Wall Streeters.

Many of them trembled in their Armani suits when Chairman Warren Buffett imposed tighter compensation rules at **Salomon**. But **Goldman Sachs** has already announced the biggest bonuses since 1986. Says Craig Ulrich, a Mercer principal who specializes in compensation: "A couple of months ago it seemed that the days of paying Wall Street executives like professional athletes were over. Now that brokerage firms see they are having great years, they ask, 'How much can we pay out in bonuses?' " **– R.T.**

WANTED: BUSINESS TRAVELERS' KIDS

■ Hotels are wooing parents who travel with their children, including people who take their offspring on business trips. As bait, **Promus Cos.**' Embassy Suites has introduced the Cool Cat Kids Club in its New York City inn. The company's hotel in Palm Beach Shores, Florida, has the Fat Cat Beach Club. Both places offer an all-day activities program, a specially designed playroom, and professional caretakers. As further inducement, the chain has childproofed two floors of suites by such safety measures as covering electrical outlets.

Among Embassy's customers: Curt and Beth Hamann of Phoenix. He is executive vice president of **SmartPractice**, which distributes medical accessories such as appointment cards and disposable gloves, and she's a dentist. They make business trips with their three children, ages 1 through 4, about 15 times a year, and tote along their nanny. In New York for a dentists' convention, the Hamanns were booked into the **Marriott** Marquis, but moved across Broadway to Embassy Suites. Says Curt: "We changed because of the kids' program." An extra benefit: The Marriott charges an average $200 per room, double occupancy. Embassy provides a two-room suite for the same price. **– R.T.**

The dual careerist Hamanns leave their kids with a hotel caretaker.

WHAT SETS THIS RECESSION APART

■ Why has this recession seemed so brutal? The answer, suggests Brian Cromwell, an economist with the Federal Reserve Bank of San Francisco, is that the pain has been so concentrated in specific and populous parts of the country.

After studying state employment data, Cromwell says the U.S. economy lost a net 748,727 jobs from July 1990 to August 1991. But just 21 states took the brunt of the damage, the fewest in any postwar recession, while others showed an increase (see map). Worst hit: California, Massachusetts, Michigan, New Jersey, and New York. Although among them they account for some 30% of employment, these five states suffered nearly 60% of all job losses vs. some 25% during the far more severe 1981–82 downturn.

Among the reasons for such localized damage: A drop in defense spending hurt California, where much of the industry is based, and slumping car sales—a usual victim of tight times—hit Michigan. Other manufacturing states weathered this slump with fewer layoffs than in past recessions—a result of a decade of corporate restructuring. Overall, says Cromwell, "when factory jobs are lost, they tend to be more evenly distributed throughout the economy."

Job losses in troubled service industries like banking and retailing, along with a glutted real estate market, clobbered Massachusetts, New York, and New Jersey. Cromwell thinks future downturns may create similar patterns. Says he: "With the shift to a more service-based economy, a greater portion of employment will be subject to local or regional shocks." **– Louis S. Richman**

SOCKED BY SOCKEYES

■ To industries in the Northwest, this is more than just another fish story. The National Marine Fisheries Service, a federal agency, has added the Snake River sockeye salmon to the U.S. list of endangered species. Among the reasons for the decision: Biologists say only four of the fish—one female and three males—made it 800 miles up the Columbia and Snake rivers from the Pacific to their Idaho spawning grounds.

Saving the sockeye could force big changes in the way the eight dams along the waterways are managed and could mean less water to irrigate crops, float barges, or produce hydroelectric power. One likely result: a utility rate increase of perhaps as much as 10%.

Big business can't be blamed if this salmon dies.

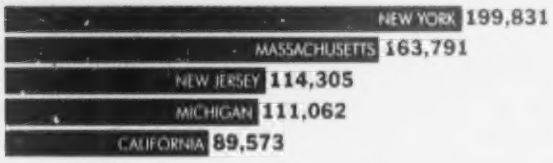
That does not sit well with aluminum companies like **Kaiser** and **Reynolds Metals**, for whom electricity represents about 30% of their production costs. Peter Forsythe, Kaiser's regional power manager, figures that kind of rate increase would cost an extra $13 million a year. Says he: "We think those kinds of impacts are unnecessarily high, especially if they don't solve the problem."

Previous rescue attempts have cost more than $1 billion. They include waterways built to help the fish bypass the dams and barges, and ferry the species downstream. Biologists think that sending more water through the river would also make the swim to the ocean easier.

The affected industries suggest simply not harvesting the sockeye at all. They maintain that there are plenty of other varieties of salmon available, thanks to Alaska, so the price of salmon steak would change little. **– Suneel Ratan**

WHICH STATES LOST THE MOST JOBS...

July 1990 – August 1991



... AND HOW REGIONS FARED

(Average percent change)

It almost didn't happen. About a year ago the Italians tried to derail efforts on condom unification by proposing a ban on domestic sales of sheaths with a diameter wider than 53 mm, or 2.06 inches. (Average width of condoms sold in the U.S.: 2.02 inches.) Bureaucrats in Brussels, headquarters for the EC, shot back that the restrictions amounted to a barrier to pan-European trade. Safety also was a concern, they argued, since condoms that are too small could split or fall off and expose partners to disease.

Italy has backed down. EC-wide standards will govern the durability and quality, but *all* Europeans will have a choice of sizes. Says Robin Gorna, a consultant to the director of social affairs in the EC's Department of Public Health in Luxembourg: "We're certainly not saying European men should have the same size apparatuses by 1994." **– Carla Rapoport**

EUROCONDOM TREATY

■ Europe may be riven over the weighty issues of monetary policy, federalism, and agricultural subsidies, but continental unity has at last been reached in one area. Yes, folks, there *will* be a Eurocondom by July 1, 1994.

NOW HEAR THIS

■ **ALAN SIMPSON,** 60, U.S. Senator (R-Wyoming), on the crime bill:
"I come from a state where gun control is just how steady you hold your weapon."

■ **KATHY KEETON,** 52, wife of *Penthouse* publisher Bob Guccione and president of the magazine's parent company:
"I think if a woman has a right to an abortion and to control her body, then she has a right to exploit her body and make money from it. We have it hard enough. Why give up one of our major assets?"

AMERICA'S BEST MUTUAL FUNDS

After sales loads, expenses, and taxes, which stock and bond funds put the most money in your pocket? Here are the standout performers in 13 categories.

■ *by Susan E. Kuhn*

If Benjamin Franklin were still alive and churning out maxims, his lesson on mutual funds would probably go something like this: The money you take beats the money you make. In that regard, meet our latest slate of mutual fund winners, ranked by their three-year performance in each of 13 categories. Unlike most fund lists, this one calculates average annual returns after subtracting all expenses, sales loads, and taxes. In other words, the returns shown here are the money-in-your-hand numbers, not the ones sitting somewhere in the bush.

By SEC decree, funds must calculate their total return after subtracting the percentage of assets that management retains to cover overhead, listed here as annual expenses. But sales loads, which are commission payments to brokers or direct marketers who sell the funds, are usually ignored. With the help of Morningstar, a mutual fund ranking service based in Chicago, we subtract this levy from the total return.

Uncle Sam's tax take on capital gains and income distributions is also seldom investigated. Here, we have taxed every distribution received at a 28% rate before reinvesting the proceeds. Because most bond funds throw off lots of taxable interest income (munis being the tax-free exception), their after-tax returns are much lower than what you typically see promoted. For stock funds, capital gains taxes can significantly reduce returns if the fund has a high portfolio turnover.

THE TOP FUNDS

Only funds currently open to individual investors in more than half the states are eligible for our list. Funds with holdings in just one state, foreign country, or industry sector have been excluded. All of the managers listed, or at least one of a team, have been with the fund throughout the three-year period. Finally, our risk ratings are based on the volatility of fund returns relative to the risk-free return from Treasury bills. Happy hunting. F

MUTUAL FUND BY CATEGORY TELEPHONE	AVG. ANNUAL RETURN		ASSETS 9/30/91	FEES		PORTFOLIO TURNOVER	RISK	MANAGER
	3years	1year	in millions	Sales load	Annual expenses			
STOCK FUNDS								
AGGRESSIVE GROWTH GROUP AVERAGE[2]	**15.5%**	**48.1%**						
Kaufmann 800-237-0132	**28.8%**	85.8%	**$90**	0.20%[3]	3.50%	**195%**	Above avg.	H. Utsch, L. Auriana
Enterprise Cap. Appreciation 800-432-4320	**24.3%**	50.4%	**$26**	4.75%	1.75%	**45%**	Average	Jeff Miller
Thomson Opportunity B 800-628-1237	**21.8%**	65.8%	**$59**	1.00%	2.00%	**106%**	Above avg.	Don Chiboucas
AIM Constellation 800-347-4246	**21.5%**	68.1%	**$300**	5.50%	1.40%	**192%**	Above avg.	H. Hutzler, J. Schoolar
Strong Discovery 800-368-3863	**20.8%**	60.6%	**$120**	2.00%	1.90%	**494%**	Below avg.	Richard S. Strong
Shearson Aggressive Growth 800-451-2010	**20.5%**	47.8%	**$156**	5.00%	1.17%	**14%**	Above avg.	R. Freeman, E. Fried
Keystone Custodian S-4 800-343-2898	**20.4%**	71.6%	**$647**	4.00%[3]	1.38%	**57%**	High	Roland Gillis
Founders Special 800-525-2440	**20.1%**	56.3%	**$177**	None	1.09%	**89%**	Above avg.	Multiple managers
Seligman Capital 800-221-2450	**19.6%**	56.6%	**$154**	4.75%	1.04%	**23%**	Above avg.	Loris Muzzatti
Delaware Group Trend 800-523-4640	**19.1%**	82.4%	**$91**	4.75%	1.30%	**67%**	Above avg.	Edward N. Antoian
GROWTH GROUP AVERAGE[2]	**13.1%**	**34.6%**						
Berger 100 800-333-1001	**31.5%**	95.4%	**$77**	None	2.13%	**145%**	Average	William M.B. Berger
Janus Twenty 800-525-8983	**31.5%**	64.6%	**$793**	None	1.07%	**163%**	Average	Thomas F. Marsico
Twentieth Century Growth 800-345-2021	**24.9%**	57.2%	**$2,988**	None	1.00%	**70%**	Average	Multiple managers
Fidelity Growth Company 800-544-8888	**24.3%**	53.3%	**$1,174**	3.00%	1.11%	**161%**	Average	Robert Stansky
AMEV Growth 800-800-2638	**22.8%**	54.2%	**$336**	4.75%	1.20%	**58%**	Above avg.	Stephen Poling
Vanguard World U.S. Growth 800-662-7447	**22.3%**	44.7%	**$755**	None	0.74%	**49%**	Average	W. Parker Hall III
Pasadena Growth 800-882-2855	**22.1%**	63.0%	**$221**	5.50%	2.20%	**32%**	Above avg.	Roger Engemann

SOURCE: MORNINGSTAR INC.

[1]Performance is through October 1991 and net of annual expenses, brokerage costs, and sales loads, also net of taxes, assuming a 28% rate for capital gains and income distributions. [2]Average annual return for all funds tracked by Morningstar in each category. [3]Redemption fee. [4]Deferred sales charge, which declines over time.

STOCK FUNDS

MUTUAL FUND BY CATEGORY TELEPHONE	AVG. ANNUAL RETURN 3years	 1year	ASSETS 9/30/91 in millions	FEES Sales load	 Annual expenses	PORTFOLIO TURNOVER	RISK	MANAGER
GROWTH cont'd								
Janus 800-525-8983	**21.7%**	40.1%	**$2,394**	None	1.02%	**307%**	Below avg.	James P. Craig
T. Rowe Price New Amer. Gr. 800-638-5660	**21.3%**	66.9%	**$187**	None	1.25%	**56%**	Above avg.	John H. Laporte
Piper Jaffray Value 800-333-6000	**21.2%**	44.9%	**$107**	4.00%	1.32%	**37%**	Average	John A. Tauer Jr.
GROWTH & INCOME GROUP AVERAGE[2]	**11.0%**	27.3%						
Composite Northwest 50 800-543-8072	**20.0%**	53.0%	**$95**	4.50%	1.26%	**8%**	Above avg.	Mark Byl
AIM Charter 800-347-4246	**19.6%**	27.7%	**$378**	5.50%	1.34%	**215%**	Low	Julian A. Lerner
Cigna Value 800-572-4462	**18.3%**	40.2%	**$130**	5.00%	1.21%	**131%**	Average	James Giblin
U.S. Boston Gr. & Inc. 800-872-7866	**15.5%**	28.3%	**$41**	1.00%	1.80%	**96%**	Below avg.	Kim Daw
Vanguard Quantitative 800-662-7447	**15.4%**	33.3%	**$307**	None	0.48%	**81%**	Average	John Nagorniak
SteinRoe Prime Equities 800-338-2550	**15.2%**	26.9%	**$55**	None	1.08%	**51%**	Below avg.	Ralph Segall
Sit "New Beg." Inc. & Gr. 800-332-5580	**14.5%**	26.9%	**$25**	None	1.50%	**70%**	Below avg.	Peter Mitchelson
Vanguard Index 500 800-662-7447	**14.2%**	31.7%	**$3,641**	None	0.19%	**23%**	Below avg.	George Sauter
Mimlic Investors I 800-443-3677	**14.0%**	31.5%	**$17**	5.00%	1.31%	**32%**	Below avg.	Jim Tatera
Founders Blue Chip 800-525-2440	**13.6%**	20.7%	**$274**	None	1.03%	**107%**	Below avg.	Multiple managers
EQUITY INCOME GROUP AVERAGE[2]	**9.1%**	24.9%						
Financial Industrial Income 800-525-8085	**19.2%**	46.0%	**$1,160**	None	0.94%	**104%**	Low	John Kaweske
Kidder Peabody Eq. Inc. 212-510-8951	**15.9%**	34.8%	**$103**	4.00%	1.60%	**178%**	Below avg.	John D. Chadwick
Helmsman Income Equity 800-338-4345	**12.2%**	25.4%	**$87**	None	0.42%	**9%**	Low	Ralph Patek
Keystone America Eq. Inc. 800-343-2898	**11.1%**	20.5%	**$25**	4.75%	2.00%	**50%**	Low	Walter McCormick
SteinRoe Total Return 800-338-2550	**10.9%**	28.8%	**$151**	None	0.88%	**75%**	Low	Robert Christensen
Capital Income Builder 800-421-0180	**10.3%**	20.4%	**$534**	5.75%	1.01%	**25%**	Low	Multiple managers
Founders Equity Inc. 800-525-2440	**10.2%**	19.2%	**$17**	None	1.65%	**107%**	Low	Multiple managers
Stratton Monthly Div. Shares 800-634-5726	**9.5%**	28.1%	**$38**	None	1.24%	**43%**	Low	G. Heffernan, J. Stratton
Alger Inc. & Gr. 800-992-3863	**9.2%**	18.1%	**$3**	5.00%	3.44%	**—74%**	Below avg.	David Alger
Prudential Eq. Inc. B 800-225-1852	**9.1%**	22.2%	**$146**	5.00%	2.22%	**58%**	Below avg.	Warren Spitz
SMALL COMPANY GROUP AVERAGE[2]	**15.1%**	54.6%						
Twentieth Century Ultra 800-345-2021	**35.5%**	101.4%	**$1,810**	None	1.00%	**41%**	Above avg.	Multiple managers
Robertson Step. Em. Growth 800-766-3863	**34.4%**	74.7%	**$91**	None	1.53%	**272%**	Average	Robert C. Czepiel
Alger Small Capitalization 800-992-3863	**31.9%**	54.8%	**$56**	5.00%	2.31%	**253%**	Above avg.	David Alger
Hartwell Emerging Growth 800-343-2898	**30.3%**	79.7%	**$72**	4.75%	2.50%	**96%**	High	John M. Hartwell
Oberweis Emerging Growth 800-323-6166	**29.7%**	104.1%	**$17**	4.00%	2.15%	**63%**	High	James Oberweis
MFS Lifetime Em. Gr. 800-225-2606	**25.6%**	93.7%	**$132**	6.00%	2.66%	**86%**	High	John W. Ballen
J. Hancock Sp. Equities 800-225-5291	**24.2%**	86.6%	**$17**	4.50%	2.75%	**113%**	Above avg.	Michael DiCarlo
Twentieth Century Vista 800-345-2021	**23.7%**	67.7%	**$598**	None	1.00%	**92%**	High	Multiple managers
Transam. Spec. Em. Gr. B 800-343-6840	**22.9%**	63.4%	**$47**	6.00%	3.11%	**82%**	Above avg.	Ed Larsen
Sit "New Beginning" Growth 800-332-5580	**22.9%**	63.1%	**$156**	None	1.03%	**37%**	Above avg.	Douglas Jones
INTERNATIONAL GROUP AVERAGE[2]	**6.9%**	5.3%						
Harbor International 800-422-1050	**15.2%**	15.8%	**$188**	None	1.35%	**19%**	Average	Hakan Castegren
Oppenheimer Global 800-525-7048	**14.6%**	11.0%	**$1,076**	5.75%	1.77%	**27%**	Average	Ken Oberman
G.T. Pacific Growth 800-824-1580	**14.2%**	6.2%	**$338**	4.75%	2.10%	**75%**	Average	Christian Wignall
Dreyfus Strategic World 800-782-6620	**14.1%**	14.4%	**$43**	3.00%	1.78%	**566%**	Low	Fiona Biggs
Fenimore Int'l Equity 800-223-7078	**13.1%**	21.7%	**$39**	5.00%	2.88%	**67%**	Average	Multiple managers
Scudder Global 800-225-2470	**12.4%**	11.3%	**$288**	None	1.81%	**38%**	Below avg.	William E. Holzer
GAN Pacific Basin 212-888-4200	**12.3%**	3.2%	**$31**	5.00%	2.23%	**103%**	Average	Michael Bunker
G.T. Worldwide Growth 800-824-1580	**12.2%**	12.9%	**$119**	4.75%	2.10%	**107%**	Below avg.	Multiple managers
Ivy International 800-235-3322	**10.1%**	11.4%	**$91**	None	1.69%	**29%**	Average	Hakan Castegren
EuroPacific Growth 800-421-9900	**10.1%**	8.0%	**$1,507**	5.75%	1.28%	**9%**	Below avg.	Multiple managers

Performance is through October 1991 and net of annual expenses, brokerage costs, and sales loads; also net of taxes, assuming a 28% rate for capital gains and income distributions. [2]Average annual return for all funds tracked by Morningstar in each category. [3]Deferred sales charge, which declines over time.

HYBRIDS

MUTUAL FUND BY CATEGORY TELEPHONE	AVG. ANNUAL RETURN 3 years	 1 year	ASSETS 9/30/91 in millions	FEES Sales load	 Annual expenses	PORTFOLIO TURNOVER	RISK	MANAGER
BALANCED FUNDS GROUP AVERAGE[2]	**9.2%**	**20.7%**						
Twentieth Century Balanced 800-345-2021	**17.8%**	41.8%	**$218**	None	1.00%	**138%**	Average	Multiple managers
Pasadena Fundamental Value 800-882-2855	**16.3%**	33.2%	**$12**	5.50%	2.50%	**36%**	Average	Roger Engemann
CGM Mutual 800-345-4048	**16.0%**	39.7%	**$360**	None	0.95%	**261%**	Average	G. Kenneth Heebner
Pax World 800-767-1729	**14.2%**	21.0%	**$225**	None	1.30%	**39%**	Low	Anthony Brown
Equitable Bal. Back-Load 800-852-6860	**14.0%**	27.4%	**$26**	5.00%	2.10%	**137%**	Below avg.	Judith Taylor
Kemper Inv. Port. 800-621-1048	**13.5%**	30.2%	**$634**	3.00%	2.24%	**121%**	Average	C. Beth Cotner
MainStay Total Return 800-522-4202	**13.2%**	28.3%	**$121**	5.00%	2.30%	**171%**	Below avg.	R. Akhoury, R. Worobel
Kemper Total Return 800-621-1048	**13.2%**	27.2%	**$979**	5.75%	0.87%	**157%**	Below avg.	Gordon Wilson
Phoenix Balanced 800-243-4361	**12.9%**	17.4%	**$865**	4.75%	0.90%	**193%**	Low	Patricia Bannan
Fidelity Balanced 800-544-8888	**11.2%**	27.8%	**$573**	None	0.98%	**238%**	Low	Robert J. Haber
CONVERTIBLE BONDS GROUP AVERAGE[2]	**7.9%**	**26.1%**						
Pacific Horizon Capital Inc. 800-332-3863	**12.8%**	33.3%	**$2**	4.50%	0.90%*	**236%**	Average	William Hensel
Concord Income Convertible 800-274-7866	**9.3%**	41.7%	**$6**	4.50%	2.50%	**26%**	Average	Richard B. Russell
Vanguard Conv. Securities 800-662-7447	**9.0%**	39.9%	**$56**	None	0.88%	**55%**	Above avg.	Rohit M. Desai
SBSF Conv. Securities 800-422-7273	**8.7%**	30.0%	**$28**	None	1.39%	**32%**	Below avg.	Louis R. Benzak
American Capital Harbor 800-421-5666	**8.2%**	15.7%	**$360**	5.75%	0.89%	**71%**	Below avg.	James H. Behrmann
JUNK GROUP AVERAGE[2]	**1.9%**	**23.8%**						
Plymouth High Yield 800-522-7297	**8.6%**	28.7%	**$34**	4.75%	1.10%	**135%**	Low	Margaret Eagle
Oppenh. Champ. High Yld. 800-525-7048	**6.4%**	19.8%	**$16**	4.75%	1.52%	**68%**	Low	Ralph Stellmacher
American High-Income 800-421-0180	**5.9%**	25.0%	**$255**	4.75%	1.00%	**38%**	Below avg.	R. Schotte, D. Barclay
Merrill Lynch Corp. Hi. Inc. B 609-282-2800	**5.6%**	28.2%	**$265**	4.00%	1.48%	**48%**	Below avg.	Vincent T. Lathbury
Merrill Lynch Corp. Hi. Inc. A 609-282-2800	**5.4%**	28.6%	**$523**	4.00%	0.69%	**48%**	Below avg.	Vincent T. Lathbury
MORTGAGE-BACKED GROUP AVERAGE[2]	**7.6%**	**8.1%**						
Vanguard Fixed Inc. GNMA 800-662-7447	**9.1%**	14.3%	**$4,575**	None	0.30%	**1%**	Average	Paul Sullivan
Benham GNMA Income 800-472-3389	**8.7%**	13.6%	**$619**	None	0.72%	**207%**	Average	Randy Merk
Fidelity Ginnie Mae 800-544-8888	**8.6%**	12.4%	**$845**	None	0.83%	**125%**	Average	James Wolfson
Lexington GNMA Income 800-526-0057	**8.5%**	13.7%	**$113**	None	1.06%	**146%**	Above avg.	Denis Jamison
Fidelity Mortgage Securities 800-544-8888	**8.4%**	12.6%	**$425**	None	0.82%	**209%**	Below avg.	James Wolfson
TREASURY GROUP AVERAGE[2]	**8.3%**	**13.1%**						
Dreyfus U.S. Gov't 800-782-6620	**8.7%**	14.5%	**$156**	None	0.24%	**31%**	Above avg.	Barbara Kenworthy
Vanguard U.S. Treasury 800-662-7447	**8.6%**	15.4%	**$844**	None	0.28%	**147%**	High	I. MacKinnon, A. Jiorle
Counsellors Interm. Gov't 800-888-6878	**7.6%**	11.4%	**$84**	None	0.53%	**55%**	Below avg.	Stuart M. Goode
Benham Treasury Note 800-472-3389	**7.5%**	10.6%	**$255**	None	0.73%	**70%**	Average	Jeffrey Tyler
Dreyfus U.S. Gov't Interm. 800-782-6620	**7.3%**	10.6%	**$139**	None	0.93%	**4%**	Average	Barbara Kenworthy
MUNICIPAL GROUP AVERAGE[2]	**8.2%**	**8.0%**						
General Municipal Bond 800-782-6620	**10.6%**	15.2%	**$582**	None	0.73%*	**50%**	Average	Paul Disdier
Financial Tax-Free Inc. Shares 800-525-8085	**9.7%**	13.3%	**$230**	None	0.93%	**25%**	High	William Veronda
Vanguard Municipal L-T 800-662-7447	**9.4%**	13.8%	**$829**	None	0.26%	**53%**	High	I. MacKinnon, J. Jacobs
Vanguard Municipal Interm. 800-662-7447	**9.0%**	12.3%	**$2,132**	None	0.26%	**19%**	Below avg.	I. MacKinnon, J. Jacobs
Safeco Municipal Bond 800-426-6730	**8.9%**	13.8%	**$398**	None	0.56%	**39%**	Below avg.	Steve Bauer
INTERNATIONAL GROUP AVERAGE[2]	**5.5%**	**3.2%**						
Van Eck World Income 800-221-2220	**8.4%**	3.8%	**$111**	4.75%	1.61%	**276%**	Above avg.	K. Buescher, D. Kenerson
Fidelity Global Bond 800-544-8888	**7.8%**	7.6%	**$154**	None	1.43%	**235%**	Above avg.	Judy M. Pagliuca
Merrill Lynch Global B 609-282-2800	**6.9%**	5.1%	**$327**	4.00%	1.81%	**160%**	High	D. Walter, L. Teitelbaum
Merrill Lynch Global A 609-282-2800	**6.7%**	5.6%	**$19**	4.00%	1.03%	**160%**	High	D. Walter, L. Teitelbaum
MFS Worldwide Gov'ts 800-225-2606	**6.1%**	-1.6%	**$233**	4.75%	1.70%	**220%**	High	Leslie J. Nanberg

BOND FUNDS

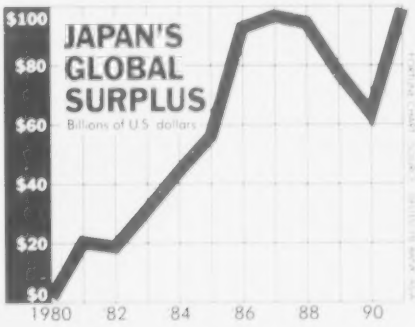
Performance is through October 1991 and net of annual expenses, brokerage fees, but not sales loads, and net of taxes, assuming a 28% rate for capital gains and income distributions. [1]Average annual return for all funds tracked by Morningstar in each category. [2]Deferred sales charge, which declines over time. *Currently absorbed by the management company.

WHY JAPAN'S SURPLUS IS RISING

Its exporters keep pouring out products, while its imports have gone flat. Unless Tokyo brings down the excess, world trade could be hit by a new outbreak of protectionism. ■ *by Lee Smith*

LIKE AN ESPECIALLY persistent infection, Japan's worldwide trade surplus is swelling again. After subsiding steadily for the past three years, it seems set to bulge in 1991 to a record $99 billion, a lump larger than the entire economy of thriving Thailand. More troubling still, Kenneth Courtis, senior economist in Deutsche Bank's Tokyo office, predicts Japan's surplus will hang above $100 billion at least through 1995.

The political strains posed by this imbalance are increasingly going global. Japan is shipping so many machine tools to its neighbors that its surplus with China and Southeast Asia has jumped in a year from $17 billion to $29 billion. Because Japanese consumers have cut back on fancy imports, the surplus with the European Community has increased from $18 billion to $28 billion. Stung by strong Japanese car exports, Germany's automakers sound more and more like Detroit's Big Three as they rail against "unfair" competition.



The risk of a protectionist backlash against the Japanese juggernaut also remains high in the U.S. Though America's deficit with Japan has dropped from a record $52 billion in 1987 to $41 billion, that's still a very big number—and it's not likely to go down anytime soon. Pile that news on top of a sluggish economy in an election year, and something could snap in the American body politic. "This is a dangerous time," says American Enterprise Institute scholar Norman Ornstein. "People are feeling very sour, and they could turn that anger toward the Japanese."

In Washington, Congressman Dick Gephardt, the Democrats' second-in-command in the House, has just introduced a bill that would force President Bush to retaliate with tariffs against the Japanese if they block their markets to anyone, not just the U.S. In Detroit, hard-pressed auto executives are also talking tougher than ever. Harold "Red" Poling, Ford's CEO, believes the U.S. should stop negotiating and simply instruct the Japanese that "they've got five years to get their trade with us down to a reasonable level." What's reasonable? "Plus or minus $5 billion," he says—a truly jaw-dropping U-turn.

What lies behind this new inflammation? Japan in the past six years has invested $3 trillion in new plant and equipment—$4,800 per worker, compared with $2,300 per worker in the U.S. Most of that money has paid for ever more clever production methods and machinery rather than shiny new plants. Sounds like just the forward-thinking investment strategy that many Americans think their own companies should pursue (see Cover Story). In Japan's case, the inevitable result of this efficiency drive has been to further increase its industries' capacity.

That's most evident in automobiles, which together with auto parts account for 75% of America's trade deficit with Japan. David Cole, director of the University of

REPORTER ASSOCIATES *Suneel Ratan and Emily Thornton*

Christmas shopping at Goods Guys electronics in San Francisco: Most of what's on sale is Japanese.

Michigan's auto studies center, recently toured a number of Japanese car plants. Says he: "One executive admitted to me that they are racing at lightning speed to the edge of the abyss. They are outstripping the world's ability to absorb their product."

WHAT REALLY troubles thoughtful policymakers is that Japan's imports have suddenly gone flat. In Germany, home of the world's other outsize trade surplus, a post-unification import boom has cut the surplus dramatically—from $65 billion in 1990 to an estimated $9 billion in 1991. But Japan's imports have fallen from $217 billion in 1990 to $205 billion this year. Says U.S. Trade Representative Carla Hills: "The global system won't work if the second-largest industrial economy is not importing."

Part of the explanation: Iraq's invasion of Kuwait drove oil prices up to $32 a barrel a year ago; when they fell back to about $20 this year, that knocked $8 billion off Japan's import bill. Japan's red-hot domestic economy has also cooled since mid-1990, reducing demand for imports. Christopher Mitchinson, a managing director in Salomon Brothers' London office, believes the economy might actually shrink in the current quarter and doesn't expect business to pick up again until next spring.

With unemployment at only 2%, Japanese consumers don't worry about losing their jobs. Inexpensive imports are still doing well. Japanese are buying American cigarettes so fast that the U.S. now has a 16% share of the market, up from 1% a decade ago. *Terminator 2* draws crowds, as big and noisy American films generally do. Advance publicity for the December 20 opening of a Toys "R" Us north of Tokyo, the first major foreign-owned store in the country, has the younger set stirred up.

The falloff has come in luxury items Japan's new rich piled up for several years. The

WHICH LOOKS MORE LIKE A THIRD WORLD COUNTRY?

	Top Japanese exports to the U.S.	1991 Value in millions		Top U.S. exports to Japan	1991 Value in millions
1	Cars	$21,123	1	Cigarettes	$1,673
2	Computer disk drives	$3,595	2	Computer parts and accessories	$1,665
3	Computer parts and accessories	$2,572	3	Aircraft	$1,629
4	Semiconductors	$2,442	4	Corn	$1,407
5	Computer memory chips	$2,434	5	Timber	$1,280
6	Television cameras	$2,431	6	Computers	$1,191
7	Trucks	$1,801	7	Semiconductors	$1,116
8	VCRs	$1,498	8	Aluminum	$955
9	Car transmissions	$1,012	9	Airplane parts	$897
10	Copiers	$920	10	Soybeans	$840

FORTUNE TABLE | SOURCE: FORTUNE ESTIMATES BASED ON DEPARTMENT OF COMMERCE DATA

WHO'S
BEEN RATED MOST
PROFESSIONAL
FOUR YEARS IN A ROW?

real estate and stock market booms created a lot of millionaires who found their yen could buy Mercedes, Kentucky yearlings, and, if not a van Gogh, a second-rank impressionist. But the Nikkei average has plunged more than 40% in two years. Like their American counterparts, for now Japan's big spenders have decided cheap is trendy.

Art collectors are spending only one-fifth as much in the U.S. for paintings as last year: $190 million in the first eight months of 1991. The real loser has been Europe. Through the first nine months, German car sales in Japan fell 14% to 88,824, and European jewelry fell off a cliff.

Finally, don't Japanese government and business continue to resist buying foreign? Yes, but critics exaggerate the barriers. "Japanese markets for manufactures, for services, and for agriculture remain virtually closed," says MIT economist Rudiger Dornbusch. But Japan imports almost as much American farm produce as all of Western Europe; Japan Airlines is the world's largest customer for Boeing 747s; General Electric sells Japan everything from nuclear reactors to CAT scanners; and 40% of the computers in the private sector are foreign made.

Under pressure from the U.S., even the Japanese government has recently bought three American supercomputers, up from zero previously. That same pressure has raised the foreign—mostly American—slice of Japan's semiconductor market from 8.5% to 13.5% in the past five years. The U.S. thinks a 20% share would be reasonable. Carla Hills credits Tokyo with expanding the staffs of its Fair Trade Commission and patent office, which should make it easier to enforce antitrust laws and stiffen the protection of foreign innovations.

Zoning reform finally made it possible for Toys "R" Us to cross the Pacific. New codes that will go into effect in 1993 will allow Japanese contractors to raise their wooden apartment houses three stories high, a floor more than permitted now. That and other changes in the rules could add $1 billion a year to lumber imports from the U.S.

True, the rice market remains closed tight. The Uruguay round of the GATT talks might force it open. But that will happen only if the Europeans agree to lower the huge subsidies they pay their farmers and if the U.S. reduces protection for its dairy farmers, sugar growers, and others, a reminder that Japan is hardly singular in wanting to take care of its own.

Getting Japanese industry to buy foreign components is the other lingering and gigantic quarrel. Companies favor a clique of suppliers, often related by intertwining ownerships, the infamous keiretsu. That practice excludes most Japanese competitors as well as foreign ones. But the clubby system can be opened up. Toyota recently pledged to buy $5 billion worth of American parts a year, starting in mid-1994, compared with $3 billion or so now. Nissan promised to increase its American purchases from $1.5 billion to $3.3 billion at about the same time.

What infuriates outsiders is that Japan rarely takes its medicine willingly. Despite itself, the patient has and can get better. But if the tonic doesn't start going down a lot faster, the world trading system may not be able to avoid catching double pneumonia. F

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THE EQUITABLE

STRENGTH IN NUMBERS

*Source: The American College. **All numbers represent consolidated statutory financial data for The Equitable Life Assurance Society and its subsidiary companies. Separate financial statements for Equitable Variable Life Insurance Company and certain other subsidiaries are available on request.
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